

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011



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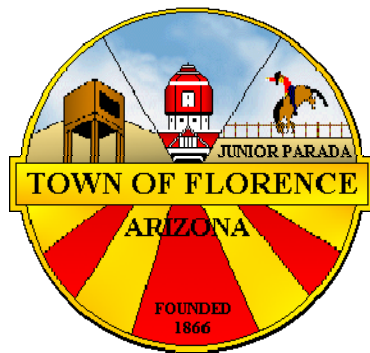
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FINANCIAL SECTION





INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council
Town of Florence, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the Town), Arizona, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Florence, Arizona, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Highway User Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Florence failed to use highway user revenue fund monies received by the Town of Florence pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town of Florence solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

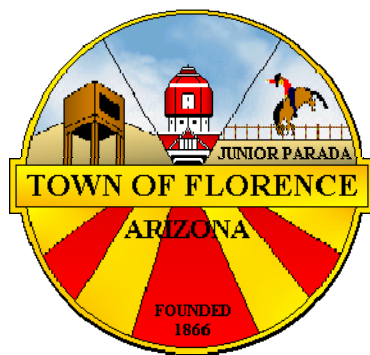
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Henry & Horne LLP

Casa Grande, Arizona
September 29, 2011

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable breakdown of the Town of Florence financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter that begins on page one and the financial statements that follow.

Report Layout

Besides the Management's Discussion and Analysis, (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information.

The first several statements are highly condensed and present a government-wide view of the Town's finances and operations. Within this view, all Town operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services like public safety, culture and recreation, community development, public works and general governmental administration. Business-type activities are water, sewer, and sanitation. The government-wide statements include the Statement of Net Assets and Statement of Activities. The Town's component unit, the North Florence Improvement District No. 1, Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2 is included within the governmental type activities.

Statement of Net Assets

The Statement of Net Assets presents the unrestricted assets of governmental and business-type activities. Governmental and Business-type activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long term liabilities.

Net assets, the difference between assets and liabilities; provide a measure of the Town's financial strength or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's privilege tax or property tax base or the condition of roads, parks and libraries to accurately assess the overall health of the Town.

Statement of Activities

The Statement of Activities presents the major program costs and matches major resources with each. To the extent that direct charges and grants do not recover a program's cost, it is paid from general taxes and other resources. The statement simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. These statements reinforce information in the government-wide financial statements or provide additional information. The Town's major funds are presented in a separate column titled, "Other Governmental Funds". For each major fund, a Budgetary Comparison Statement is presented. Users who want to obtain information on non-major funds can find it in the Combining Schedules of Non-major Funds and/or the Supplemental Information-Budgetary Comparison Schedules of this report. Finally, the report provides a series of other financial and statistical schedules.

The MD&A is intended to explain significant changes in the financial position and differences in operations between current and prior years.

Town as a Whole

A condensed version of the Statement of Net Assets at June 30, 2011 follows.

Condensed Statement of Net Assets (in Thousands)						
	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 49,981	\$ 45,945	\$ 14,439	\$ 11,548	\$ 64,420	\$ 57,493
Capital assets	69,306	69,736	11,394	11,705	80,700	81,441
Total assets	119,287	115,681	25,833	23,253	145,120	138,934
Other liabilities	3,042	2,211	550	623	3,592	2,834
Long-term liabilities	14,182	11,143	4,977	5,341	19,159	16,484
Total liabilities	17,224	13,354	5,527	5,964	22,751	19,318
Net assets:						
Invested capital assets						
net of related debt	54,390	58,303	6,053	6,012	60,443	64,315
Restricted	33,045	25,772	1,047	987	34,092	26,759
Unrestricted	14,628	18,248	13,206	10,290	27,834	28,538
Total net assets	\$ 102,063	\$ 102,323	\$ 20,306	\$ 17,289	\$ 122,369	\$ 119,612

Statement of Net Assets at June 30, 2011:

During fiscal year 2010-2011 several events changed the balance of net assets. The Town's overall financial position has improved during the year as reflected in the increase in net assets above. Cash and cash equivalents increased \$14.7 million due to increases in Merrill Ranch Community Facilities District Receivables and increases in user fees. Liabilities increased in governmental business by \$3.9 million, increasing due to debt issued for the CFD Bonds in Merrill Ranch CFD NO.1 and 2 and decreased by \$437,000 in business activities. WIFA Debt has been authorized for \$1.3 million dollars, but no draws had been taken at June 30, 2011. Additionally, the unrestricted net assets of both the governmental and business-type activities amount to \$14.6 and \$13.2 million respectively. This provides a useful measure of the Town's net assets available for spending at the end of the fiscal year.

There are restrictions in net assets of governmental assets of \$7.2 million and business type activities of \$60,000. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the governmental activities category are taxes and other collections limited to specific transportation construction projects and the repayment of debt. Within the business-type activities are bond proceeds and debt service reserves.

Governmental Activities

Infrastructure: The value of capital assets was reduced slightly this year due to reduced acquisition of assets, disposals and depreciation costs. Assets for this year are as follows; Donation of land in the amount of \$6,767, furniture, fixtures and equipment, including vehicles in the amount of \$179,743. At the end of June 30, 2011, five (5) projects were still in construction phase. Costs incurred to date were Anthem Fire Station-\$25,348, Activity Center/Library Master Plan-\$9,000, Baseball Field #3 Fencing-\$24,610, Communications Upgrades-\$55,446, Information Systems Upgrade-\$33,132.

Infrastructure and other improvements total approximately \$89 million with street related components accounting for \$64.8 million of that entire total. The non-land portion of improvements, are now depreciated and the depreciated value at year-end is \$36.6 million. Long term debt totaled \$14.9 million. This includes the Community Facilities Districts debt of \$13.9 million on General Obligation and Assessment Bonds. General Government debt was \$1 million.

Business –type Activities

Current cash and other assets total \$25.8 million. Infrastructure and other improvements total approximately \$13.2 million. The non-land portion of improvements, are depreciated and the net value is \$11.4 million. Long term debt totaling \$6.6 million reflects monies borrowed from the Water Infrastructure Financing Authority for the new sewer plant.

The Water Fund added \$119,435 in capital purchases. This included Water Meters in the amount of \$10,196, a Work Truck in the amount of \$30,892, Lancaster Circle Project-\$38,307, completion of project U26 Water Storage Tank - \$15,423 and continued work on project U34 Well #3 replacement -\$9,376.

The Florence Sewer Fund continued its Sewer Plant improvement project, expending \$141,205 on project U19-Aerated Lagoon closure and \$1,275 on the Office Lab project U51 for a total of \$142,480.

The Sanitation Fund had no capital outlay this year.

Statement of Activities for the Year Ended June 30, 2011:

A summary of the statement of activities follows:

	Changes in Net Assets (in Thousands)					
	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Program revenues						
Charges for services	\$ 1,738	\$ 2,681	\$ 7,159	\$ 6,179	\$ 8,897	\$ 8,860
Operating grants	3,179	3,183	-	20	3,179	3,203
Capital grants and contributions	1,340	3,429	43	55	1,383	3,484
General revenues	-	-	-	-	-	-
Taxes	5,303	6,176	-	-	5,303	6,176
Intergovernmental	4,852	5,443	-	-	4,852	5,443
Donation of capital assets	-	-	-	-	-	-
Miscellaneous	468	589	288	251	756	840
Total revenues	<u>16,880</u>	<u>21,501</u>	<u>7,490</u>	<u>6,505</u>	<u>24,370</u>	<u>28,006</u>
Expenses						
General government	6,932	6,683	-	-	6,932	6,683
Public safety	5,313	5,572	-	-	5,313	5,572
Highways and streets	2,961	3,478	-	-	2,961	3,478
Public works	42	28	-	-	42	28
Culture and recreation	1,258	1,395	-	-	1,258	1,395
Community development	631	623	-	-	631	623
Interest on long-term debt	685	615	-	-	685	615
Water	-	-	1,322	1,390	1,322	1,390
Sewer	-	-	1,806	1,900	1,806	1,900
Sanitation	-	-	662	663	662	663
Non-Major Enterprise	-	-	-	-	-	-
Total expenses	<u>17,822</u>	<u>18,394</u>	<u>3,790</u>	<u>3,953</u>	<u>21,612</u>	<u>22,347</u>
Excess before transfers	(942)	3,107	3,700	2,552	2,758	5,659
Transfers in (out)	682	704	(682)	(704)	-	-
Change in net assets	<u>(260)</u>	<u>3,811</u>	<u>3,018</u>	<u>1,848</u>	<u>2,758</u>	<u>5,659</u>
Beginning net assets,	102,323	98,512	17,289	15,441	119,612	113,953
Ending net assets	<u>\$ 102,063</u>	<u>\$ 102,323</u>	<u>\$ 20,307</u>	<u>\$ 17,289</u>	<u>\$ 122,370</u>	<u>\$ 119,612</u>

Government Activities

The cost of all governmental activities this year was \$21.6 million. \$8.9 million of this cost was paid for by those who directly benefited from or contributed to the programs. \$1.3 million was subsidized by grants received from other governmental organizations and \$5.3 million was financed through general Town taxes. Other governmental revenues, including inter-governmental aid and interest amounted to \$5.6 million.

Governmental Activities

The Town's governmental functions include the following: general government, community development, culture and recreation, public safety and public works.

Governmental revenues decreased \$4.6 million from last year. Charges for services were down by \$943,000, operating grants decreased slightly by \$4,000 and capital grants decreased by

\$2.09 million. Taxes were down \$948,000 from the prior year. Intergovernmental (state and county shared) taxes went down by \$591,000 from the prior year.

Governmental program expenses decreased \$572,000 from the prior year. Net costs of services decreased because of decreased revenue in governmental activities.

Business-type Activities

Charges for services increased this year by \$985,000. The cost of providing all business-type activities this year was \$3.8 million. All of this cost was paid by users. Timely rate studies and implementation are credited for generating enough revenue to cover costs and restricting expenditures.

Expenditures decreased \$1.6 million this year. This is due to decreased costs in labor and capital projects moved to future years.

The Town's business-type programs include the following: water, sewer and sanitation.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011 the Town had invested \$89 million in capital assets as reflected in the following table. Assets increased from the prior year in the amount of \$1.5. Of the total additions reflected below, \$3 million represents current year infrastructure additions. The majority of the increase in capital additions is due to the infrastructure assets acquired in streets in the Governmental Activities. Accumulated depreciation reflects the allowance for aging of assets and the result of assets less accumulated depreciation equals the new value of fixed assets in total. Net assets decreased \$429,000 due to depreciation and dispositions.

The following table reconciles the changes in capital assets.

	2010	Additions	Dispositions	2011
Governmental Activities				
Capital Assets	\$ 87,523,753	\$ 3,045,760	\$ (1,897,891)	\$ 88,671,622
Accumulated Depreciation	(17,788,064)	(2,040,392)	463,066	(19,365,390)
	<u>\$ 69,735,689</u>	<u>\$ 1,005,368</u>	<u>\$ (1,434,825)</u>	<u>\$ 69,306,232</u>
Business-type Activities				
Capital Assets	\$ 17,937,930	\$ 287,427	\$ (51,083)	\$ 18,174,274
Accumulated Depreciation	(6,233,370)	(546,576)	-	(6,779,946)
	<u>\$ 11,704,560</u>	<u>\$ (259,149)</u>	<u>\$ (51,083)</u>	<u>\$ 11,394,328</u>

Additional information on the Town of Florence capital assets can be found in the notes to the financial statements.

Debt Administration

As of fiscal year-end, the Town had \$21.5 million in debt outstanding compared to \$18.4 million last year. This is an increase over last year due to \$3,560,000 General Obligation Bonds being issued in CFD #2 and \$290,500 in Assessment Bonds issued in CFD #1-Area 3.

Debt Schedule

Financing Agency	Purpose	Loan	Rate	Maturity	Loan Amount	Retired	Balance
Julie Giles	Land Purchase	01/02/02	6.00%	07/01/21	\$800,000	\$253,212	\$546,788
Bank of New York Trust	Purchase Asset of Utility Co.	01/94	8.45%	1/01/19	1,525,000	1,043,000	482,000
Water Infrastructure Authority of Arizona-Loan 1	Sewer Expansion	01/03/2003	3.339	7/01/22	7,500,000	2,159,085	5,340,915
Wells Fargo Bank-CFD #1-Assessment Area 1-2006	Infrastructure-CFD #1	6/6/2006	4.30%	07/01/30	2,464,000	276,000	2,188,000
Wells Fargo Bank-CFD #2-Assessment Area 1-2006	Infrastructure-CFD #2	6/6/2006	4.30%	07/01/30	2,555,000	302,000	2,253,000
Wells Fargo Bank-2008A Issue	Infrastructure-CFD#1	06/28/2006	6.00%	07/01/30	4,390,000	180,000	4,210,000
Wells Fargo Bank-CFD #1-Assessment Area Two-Unit 54	Infrastructure-CFD#1	9/16/2009	9.00%	07/01/34	353,500	-	353,500
Wells Fargo Bank-CFD #2-Assessment Area Two & Three-Units 29 & 40	Infrastructure-CFD #2	9/16/2009	9.00%	07/01/34	829,500	-	829,500
Wells Fargo Bank-CFD #2-Assessment Area Four Unit 20	Infrastructure-CFD #2	2/25/2010	7.75%	07/01/35	203,000	-	203,000
Wells Fargo Bank-CFD #1-Assessment Area 3-Unit 17A	Infrastructure-CFD #1	10/6/10	7.50%	07/01/35	290,500	-	290,500
Wells Fargo Bank-2010 Issue	Infrastructure-CFD #2	11/19/10	5.86%	07/15/35	3,560,000	-	3,560,000
Total Debt					\$24,470,500	\$4,213,297	\$20,257,203

Additional information on the Town of Florence long-term debt can be found in the notes to the financial statements.

The Arizona State Constitution and Statutes limit the amount of general obligation debt that a municipality may issue by providing two tests. Under the first test, general obligation debt for a specific purpose such as supplying water or sewer services and recreational playground facilities may not exceed 20% of the Town's secondary assessed valuation. Under the second test, a Town may not insure general obligation debt for general municipal purposes in an amount that exceeds 6% of the Town's secondary assessed valuation.

Economic Factors

Governmental Funds

The Town relies heavily on state shared revenues. During the year 53% of the general fund revenues were derived from state shared revenues, 57% of the Highway User Fund revenues and 41% from Transportation Excise Tax. Because of the correctional facilities located within the Town limits, the apportionment of state shared revenues has assisted the Town in providing increased demand for services in the municipal limits. The private construction has provided additional transaction privilege tax revenues. These are one time revenues that are allocated to the CIP Fund to purchase and fund capital projects. We may need to use a portion of this revenue to sustain the operational costs of general government for the upcoming years where a decrease in state shared revenues is expected. The retail picture will depend upon future development of housing, commercial and industrial business within the community.

The following business developments have provided additional resources for the Town:

Premier Investigations, LLC
Silver King Hair Company
Islanders Professional Cleaning
D & I Pools and Spas
Second Hand Rose
Life Support CPR, LLC
Country Crossing Trading
Dreiling Painting Company
Absentee "Happy Owner" Service
Pranzo Enterprises
Damsel fly Bodywerks
Rude Miner
My Arizona Butler, LLC

Business-type Funds

The rates for the Water, Sewer Funds in Florence were adopted July 2010. A rate study was done for 2008-2009 and completed in April 2009. The study provided for annual incremental rate increases to lessen the impact on customers. In fiscal year 2011-2012 an update to evaluate the current rates will be provided by economists.com.

We are contracting to have an Infrastructure Improvement Plan and Development Impact Fee Study. The basis of Development Impact Fees is the Infrastructure Improvement Plan.

In this past year's legislative session, Senate Bill 1525 called for restrictions and changes to the implementation and collection of development impact fees. The bill essentially re-wrote the Arizona Development fee statute. The influence of Nevada, New Mexico and Texas provisions influenced the current adopted statute we now have before us.

The first change is the change and/or elimination of certain development impact fees. This change is effective on January 1, 2012. This includes the following:

- Limited grandfathering of development fees where fees have already been pledged to the repayment of debt service. (The Town has not pledged development fees to repay debt service.)
- General Government fees, administrative buildings, larger library/park facilities, art & cultural fees, police/fire training centers, solid waste collect/disposal, etc. (The Town is collecting some of these fees.)
- Each municipality should immediately review its current fee program and fee study to remove unauthorized fees and work from a revised fee schedule with deleted/reduced fees out of existing schedule.

The second change requires all existing fee programs to be replaced with fees adopted under the new statute by August 1, 2014. The municipality cannot collect development fees after 2014 until a compliant program is adopted.

Next Year's Budget and Rates

The 2011-2012 fiscal year operating budget decreased by \$3.8 million over last year. The operating budget was prepared with an increase in property tax rate from \$.9423 per \$100 Net Assessed Valuation to \$104.13 per \$100 Net Assessed Valuation. Property values fell this year. To provide the maximum allowable levy, the rate had to be increased to provide revenues to offset expenditures. This is used to supplement the General Fund Revenues.

The Capital Budgets for the 2011-2012 are limited to the following projects:

- General Fund for \$1,740,574 includes council chamber improvements, finance office equipment, and automated time keeping system, North End Framework Plan, four (4) replacement police vehicles and furniture, fixtures and equipment, fire station vehicles and equipment, information technology equipment, and improvements for the pool, funded by the Capital Projects Fund in the amount of \$1,460,274.
- Capital Project Fund \$280,300 for Town Construction projects that includes an information technology building and a provision for \$3,000,000 in other construction projects.
- Operating Transfers for Capital Project Grants in the amount of \$465,394.
- Debt Service for land purchase in the amount of \$69,748.
- Highway User Fund for vehicles, equipment and street and road improvements in the amount of \$3,295,000.
- Water Fund for \$4,869,000 for water meters, equipment, valves, hydrants, water line replacements and extensions, bore, and well replacement.
- Sewer Fund for \$3,158,000 for plant expansion, improvements and closure costs, interceptors, sewer main extensions and replacements.
- Enterprise Impact Fees \$135,000 in various growth related projects
- Other Impact Fees \$5,941,500 in various growth related projects
- Various grants and special revenue for community improvements in the amount of \$1,430,645.

The Town has set aside \$3,000,000 for capital projects for town facilities. The source of these funds comes from the Private Construction Tax, Construction Tax Fund and the Food Tax Fund.

We have established three Streetlight Improvement Districts in the Pulte Development area. This will provide a revenue stream through ad-valorem property tax to pay for expenses of the streetlights that directly provide the benefits to the users of the SLID.

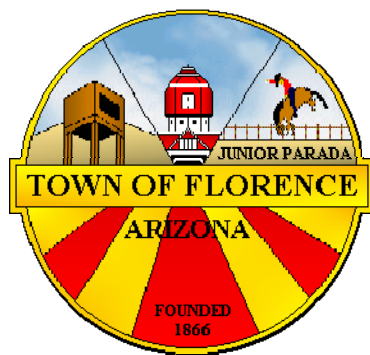
We have established two Community Facilities Districts. These Districts are political sub-division of the Town and have the ability to levy assessments and/or ad-valorem property tax to the owners of the properties within the districts. Funds are used to repay debt associated with the sale of bonds that pay for the infrastructure costs which provides a direct benefit to the users of the individual districts.

Monitoring of existing programs and services will be continued for Budget Year 2011-2012. Cost-to-benefit ratios have been established through the Town's financial policy, and services that do not meet the threshold will be recommended for termination or modification. Personnel costs and benefits continue to be monitored.

The Capital Improvement Plan has been updated by a CIP adopted during the budget process. This guideline will provide the town with a planning document to project capital purchases for the next seven years. The CIP will be updated annually.

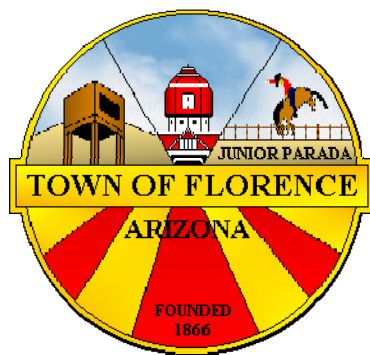
Financial Contact

The Town's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's Finance Director at 775 North Main Street, Florence, Arizona 85132.



FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS



TOWN OF FLORENCE, ARIZONA
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,076,023	\$ 1,754,889	\$ 6,830,912
Receivables (net of allowance for uncollectibles)	1,314,940	647,535	1,962,475
Special assessment receivable	5,742,794	-	5,742,794
Due from other governments	91,841	-	91,841
Internal balances	50,000	(50,000)	-
Prepays	84,833	49,458	134,291
Restricted cash equivalents	1,908,629	-	1,908,629
Investments	34,817,612	12,037,192	46,854,804
Deferred charges	893,923	-	893,923
Capital assets			
Land and construction in progress	32,939,151	728,103	33,667,254
Other capital assets (net of accumulated depreciation)	36,367,081	10,666,227	47,033,308
Total assets	<u>119,286,827</u>	<u>25,833,404</u>	<u>145,120,231</u>
LIABILITIES			
Accounts payable and other current liabilities	701,522	13,246	714,768
Customer deposits	225,736	52,993	278,729
Accrued wages and benefits	453,639	-	453,639
Accrued interest payable	535,324	89,167	624,491
Retainages	45,808	-	45,808
Current portion of			
Compensated absences	345,186	30,499	375,685
Notes payable	36,940	363,726	400,666
Bonds payable	697,400	-	697,400
Long-term portion of			
Notes payable	509,848	4,977,189	5,487,037
Bonds payable	13,672,100	-	13,672,100
Total liabilities	<u>17,223,503</u>	<u>5,526,820</u>	<u>22,750,323</u>
NET ASSETS			
Invested in capital assets, net of related debt	54,389,944	6,053,415	60,443,359
Restricted for			
Special revenues			
Highways and streets	5,619,102	-	5,619,102
Grant purposes	128,358	-	128,358
Economic development	1,364,636	-	1,364,636
Community services	357,314	-	357,314
Debt service	13,655,114	539,443	14,194,557
Capital projects	11,920,665	507,481	12,428,146
Unrestricted	14,628,191	13,206,245	27,834,436
Total net assets	<u>\$ 102,063,324</u>	<u>\$ 20,306,584</u>	<u>\$ 122,369,908</u>

See accompanying notes.

TOWN OF FLORENCE, ARIZONA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 6,932,444	\$ 947,188	\$ 7,330	\$ -
Public safety	5,313,251	306,789	208,869	90,138
Highways and streets	2,960,896	-	2,894,457	560,457
Public works	41,693	-	-	687,282
Culture and recreation	1,257,819	9,466	42,923	-
Community development	630,865	474,938	25,476	2,075
Interest on long-term debt	685,365	-	-	-
Total governmental activities	<u>17,822,333</u>	<u>1,738,381</u>	<u>3,179,055</u>	<u>1,339,952</u>
Business-type activities				
Water	1,321,927	2,961,152	-	-
Sewer	1,806,536	3,218,251	-	27,369
Sanitation	661,964	979,401	-	16,058
Total business-type activities	<u>3,790,427</u>	<u>7,158,804</u>	<u>-</u>	<u>43,427</u>
Total primary government	<u>\$ 21,612,760</u>	<u>\$ 8,897,185</u>	<u>\$ 3,179,055</u>	<u>\$ 1,383,379</u>
General revenues				
Property taxes				
Sales and use taxes				
Franchise taxes				
Shared revenues				
State sales taxes				
Urban revenue sharing				
Auto-in-lieu				
Investment earnings				
Miscellaneous				
Transfers in (out)				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Net assets-ending				

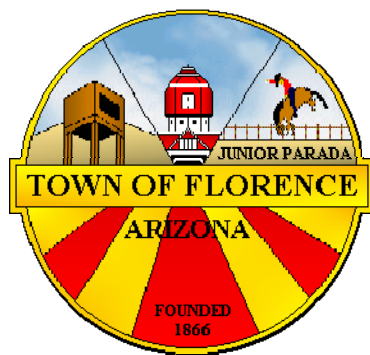
Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (5,977,926)	\$ -	\$ (5,977,926)
(4,707,455)	-	(4,707,455)
494,018	-	494,018
645,589	-	645,589
(1,205,430)	-	(1,205,430)
(128,376)	-	(128,376)
(685,365)	-	(685,365)
<u>(11,564,945)</u>	<u>-</u>	<u>(11,564,945)</u>
-	1,639,225	1,639,225
-	1,439,084	1,439,084
-	333,495	333,495
<u>-</u>	<u>3,411,804</u>	<u>3,411,804</u>
(11,564,945)	3,411,804	(8,153,141)
1,832,156	-	1,832,156
3,099,031	-	3,099,031
371,757	-	371,757
1,603,753	-	1,603,753
1,998,242	-	1,998,242
1,250,280	-	1,250,280
195,754	64,367	260,121
272,229	223,339	495,568
681,590	(681,590)	-
<u>11,304,792</u>	<u>(393,884)</u>	<u>10,910,908</u>
(260,153)	3,017,920	2,757,767
102,323,477	17,288,664	119,612,141
<u>\$ 102,063,324</u>	<u>\$ 20,306,584</u>	<u>\$ 122,369,908</u>

TOWN OF FLORENCE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	Highway User	Community Facilities Districts- Debt Service
ASSETS			
Cash and cash equivalents	\$ 1,588,168	\$ 689,197	\$ 337,875
Receivables (net of allowance for uncollectibles)	1,052,033	248,352	5,344,030
Due from other governments	-	-	7,375
Due from other funds	-	-	-
Prepays	64,468	-	-
Restricted assets			
Cash and cash equivalents	-	-	1,193,641
Investments	10,893,604	4,727,361	2,317,566
Total assets	<u>\$ 13,598,273</u>	<u>\$ 5,664,910</u>	<u>\$ 9,200,487</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other current liabilities	\$ 656,432	\$ -	\$ -
Customer deposits	270,826	-	-
Accrued wages and benefits	453,639	-	-
Retainages	-	45,808	-
Deferred revenue	58,741	-	5,344,036
Total liabilities	<u>1,439,638</u>	<u>45,808</u>	<u>5,344,036</u>
Fund balances:			
Nonspendable	64,468	-	-
Restricted	-	5,061,255	3,856,451
Committed	-	-	-
Assigned	-	557,847	-
Unassigned	12,094,167	-	-
Total fund balances	<u>12,158,635</u>	<u>5,619,102</u>	<u>3,856,451</u>
Total liabilities and fund balance	<u>\$ 13,598,273</u>	<u>\$ 5,664,910</u>	<u>\$ 9,200,487</u>

Community Facilities Districts- Capital Improvements	Impact Fees	Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 171	\$ 858,501	\$ 797,393	\$ 804,718	\$ 5,076,023
-	-	-	413,319	7,057,734
-	-	-	84,466	91,841
-	-	50,000	-	50,000
-	-	-	20,365	84,833
714,988	-	-	-	1,908,629
1,174	5,888,659	5,469,503	5,519,745	34,817,612
<u>\$ 716,333</u>	<u>\$ 6,747,160</u>	<u>\$ 6,316,896</u>	<u>\$ 6,842,613</u>	<u>\$ 49,086,672</u>
\$ -	\$ -	\$ -	\$ -	\$ 656,432
-	-	-	-	270,826
-	-	-	-	453,639
-	-	-	-	45,808
-	-	-	398,764	5,801,541
<u>-</u>	<u>-</u>	<u>-</u>	<u>398,764</u>	<u>7,228,246</u>
-	-	-	-	64,468
716,333	6,747,160	-	5,128,436	21,509,635
-	-	-	652,292	652,292
-	-	6,316,896	663,121	7,537,864
-	-	-	-	12,094,167
<u>716,333</u>	<u>6,747,160</u>	<u>6,316,896</u>	<u>6,443,849</u>	<u>41,858,426</u>
<u>\$ 716,333</u>	<u>\$ 6,747,160</u>	<u>\$ 6,316,896</u>	<u>\$ 6,842,613</u>	<u>\$ 49,086,672</u>



TOWN OF FLORENCE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2011

Fund balance - total governmental funds balance sheet \$ 41,858,426

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental funds.

Governmental capital assets	\$ 88,671,622	
Less accumulated depreciation	<u>(19,365,390)</u>	69,306,232

Long-term liabilities, including bonds payable and their related
costs, are not due and payable in the current period and therefore
are not reported in the funds.

Compensated absences	(345,186)	
Notes payable	(546,788)	
Bond issuance costs	893,923	
Bonds payable	<u>(14,369,500)</u>	(14,367,551)

Deferred revenue is shown on the governmental funds, but is not
deferred on the statement of net assets.

Special assessments	5,742,794	
Sale of property	<u>58,747</u>	5,801,541

Interest payable on long-term debt is not reported in the
governmental funds.

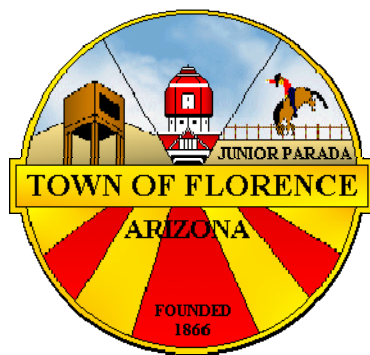
(535,324)

Net assets of governmental activities - statement of net assets		<u><u>\$ 102,063,324</u></u>
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TOWN OF FLORENCE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	General	Highway User	Community Facilities Districts- Debt Service
REVENUES			
Taxes	\$ 2,473,383	\$ 2,894,457	\$ 805,932
Franchise fees	371,757	-	-
Licenses and permits	352,062	-	-
Intergovernmental revenues	4,852,275	-	-
Charges for services	724,507	-	-
Fines	153,210	-	-
Special assessments	-	-	779,129
Investment earnings	60,200	27,033	11,008
Contributions and donations	27,022	-	-
Miscellaneous	110,925	39,841	13,099
Total revenues	<u>9,125,341</u>	<u>2,961,331</u>	<u>1,609,168</u>
EXPENDITURES			
Current			
General government	2,568,218	-	63,613
Public safety	4,908,833	-	-
Highways and streets	-	1,528,943	-
Public works	-	-	-
Culture and recreation	1,134,885	-	-
Community development	552,283	-	-
Capital outlay	-	695,491	-
Debt service			
Principal	-	-	204,000
Interest and fiscal charges	-	-	690,997
Total expenditures	<u>9,164,219</u>	<u>2,224,434</u>	<u>958,610</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(38,878)</u>	<u>736,897</u>	<u>650,558</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,088,741	43,540	26,455
Transfers out	(8,894)	(316,080)	-
Sale of capital assets	10,161	-	-
Proceeds from obligations	-	-	-
Total other financing sources and uses	<u>1,090,008</u>	<u>(272,540)</u>	<u>26,455</u>
Net change in fund balances	<u>1,051,130</u>	<u>464,357</u>	<u>677,013</u>
Fund balances - beginning of year	<u>11,107,505</u>	<u>5,154,745</u>	<u>3,179,438</u>
Fund balances - end of year	<u>\$ 12,158,635</u>	<u>\$ 5,619,102</u>	<u>\$ 3,856,451</u>

Community Facilities Districts- Capital Improvements	Impact Fees	Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,038,587	\$ 613,285	\$ 7,825,644
-	-	-	-	371,757
-	-	-	-	352,062
-	-	-	378,620	5,230,895
-	427,543	-	37,666	1,189,716
-	-	-	2,652	155,862
-	-	-	87,323	866,452
1,444	32,807	29,412	29,391	191,295
-	-	-	3,691	30,713
-	-	-	101,449	265,314
<u>1,444</u>	<u>460,350</u>	<u>1,067,999</u>	<u>1,254,077</u>	<u>16,479,710</u>
349,980	-	273,135	174,275	3,429,221
-	-	-	57,478	4,966,311
-	-	-	-	1,528,943
-	-	-	1,425	1,425
-	-	-	-	1,134,885
-	-	-	158,031	710,314
3,248,213	25,348	246,726	181,223	4,397,001
-	-	34,849	128,000	366,849
-	-	47,993	47,743	786,733
<u>3,598,193</u>	<u>25,348</u>	<u>602,703</u>	<u>748,175</u>	<u>17,321,682</u>
<u>(3,596,749)</u>	<u>435,002</u>	<u>465,296</u>	<u>505,902</u>	<u>(841,972)</u>
-	-	50,000	14,715	1,223,451
(26,455)	-	(11,638)	(178,794)	(541,861)
-	-	-	-	10,161
3,850,500	-	-	-	3,850,500
<u>3,824,045</u>	<u>-</u>	<u>38,362</u>	<u>(164,079)</u>	<u>4,542,251</u>
227,296	435,002	503,658	341,823	3,700,279
489,037	6,312,158	5,813,238	6,102,026	38,158,147
<u>\$ 716,333</u>	<u>\$ 6,747,160</u>	<u>\$ 6,316,896</u>	<u>\$ 6,443,849</u>	<u>\$ 41,858,426</u>



TOWN OF FLORENCE, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ 3,700,279

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.
Also, assets contributed to the Town are not reported in the fund
statements and are reported in the statement of activities.

Contributions	\$ 560,457	
Sale of capital assets	36,253	
Expenditures for capitalized assets	1,072,972	
Less current year depreciation	<u>(2,040,392)</u>	(370,710)

Revenues received in the current year that were accrued in the statement of activities in prior years		
Special assessments		(159,895)

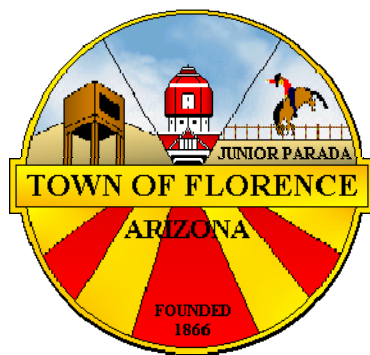
Interest expense in the statement of activities differs from the amount reported in governmental funds because accrued interest was calculated for outstanding debt for the statement of activities, but is expensed when due for the governmental fund statements.		(114,959)
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Repayment of long-term debt are expenditures in the governmental
funds, but the repayment reduces long-term liabilities in the statement
of net assets.

Issuance of bond debt	(3,850,500)	
Bond issuance costs	216,327	
Note payable principal retirement	34,850	
Bond principal retirement	<u>332,000</u>	(3,267,323)

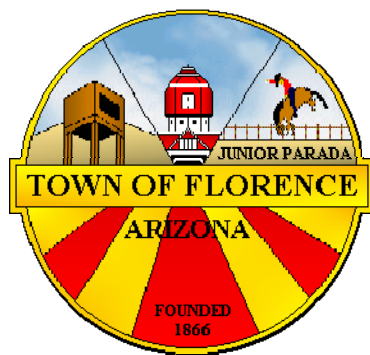
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>(47,545)</u>
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Change in net assets of governmental activities		<u><u>\$ (260,153)</u></u>
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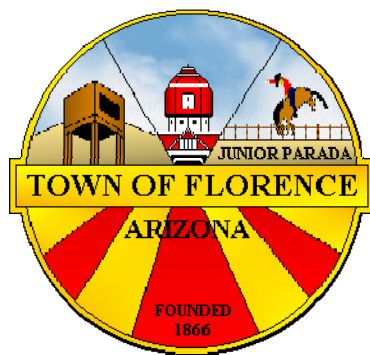
TOWN OF FLORENCE, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 2,499,745	\$ 2,499,745	\$ 2,473,383	\$ (26,362)
Franchise fees	379,000	379,000	371,757	(7,243)
Licenses and permits	331,500	331,500	352,062	20,562
Intergovernmental revenues	4,815,829	4,815,829	4,852,275	36,446
Charges for services	818,116	818,116	724,507	(93,609)
Fines	134,050	134,050	153,210	19,160
Investment earnings	100,000	100,000	60,200	(39,800)
Contributions and donations	5,000	5,000	27,022	22,022
Miscellaneous	46,300	46,300	110,925	64,625
Total revenues	9,129,540	9,129,540	9,125,341	(4,199)
EXPENDITURES				
Current				
General government	3,073,139	3,073,139	2,568,218	504,921
Public safety	5,403,749	5,403,749	4,908,833	494,916
Culture and recreation	1,383,692	1,383,692	1,134,885	248,807
Community development	611,050	611,050	552,283	58,767
Total expenditures	10,471,630	10,471,630	9,164,219	1,307,411
Excess (deficiency) of revenues over (under) expenditures	(1,342,090)	(1,342,090)	(38,878)	1,303,212
OTHER FINANCING SOURCES (USES)				
Transfers in	984,000	984,000	1,088,741	104,741
Transfers out	-	-	(8,894)	(8,894)
Sale of capital assets	-	-	10,161	10,161
Total other financing sources and uses	984,000	984,000	1,090,008	106,008
Net change in fund balance	(358,090)	(358,090)	1,051,130	1,409,220
Fund balance - beginning of year	1,542,548	1,542,548	11,107,505	9,564,957
Fund balance - end of year	\$ 1,184,458	\$ 1,184,458	\$ 12,158,635	\$ 10,974,177



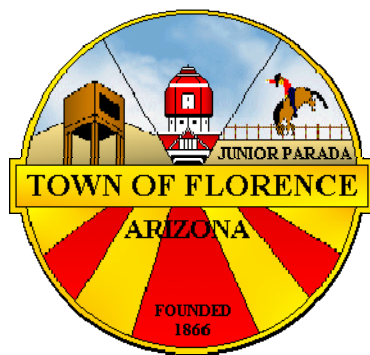
TOWN OF FLORENCE, ARIZONA
HIGHWAY USER FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 2,938,810	\$ 2,938,810	\$ 2,894,457	\$ (44,353)
Investment earnings	50,000	50,000	27,033	(22,967)
Miscellaneous	6,500	6,500	39,841	33,341
Total revenues	<u>2,995,310</u>	<u>2,995,310</u>	<u>2,961,331</u>	<u>(33,979)</u>
EXPENDITURES				
Current				
Highways and streets	2,152,750	2,152,750	1,528,943	623,807
Capital outlay	3,823,200	3,823,200	695,491	3,127,709
Total expenditures	<u>5,975,950</u>	<u>5,975,950</u>	<u>2,224,434</u>	<u>3,751,516</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,980,640)</u>	<u>(2,980,640)</u>	<u>736,897</u>	<u>3,717,537</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,260,500	1,260,500	43,540	(1,216,960)
Transfers out	<u>(1,101,690)</u>	<u>(1,101,690)</u>	<u>(316,080)</u>	<u>785,610</u>
Total other financing sources and uses	<u>158,810</u>	<u>158,810</u>	<u>(272,540)</u>	<u>(431,350)</u>
Net change in fund balance	<u>(2,821,830)</u>	<u>(2,821,830)</u>	<u>464,357</u>	<u>3,286,187</u>
Fund balance - beginning of year	<u>4,114,666</u>	<u>4,114,666</u>	<u>5,154,745</u>	<u>1,040,079</u>
Fund balance - end of year	<u>\$ 1,292,836</u>	<u>\$ 1,292,836</u>	<u>\$ 5,619,102</u>	<u>\$ 4,326,266</u>



TOWN OF FLORENCE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities-Enterprise Funds			
ASSETS				
Current assets	Water	Sewer	Sanitation	Total
Cash and cash equivalents	\$ 896,082	\$ 737,216	\$ 121,591	\$ 1,754,889
Receivables, net of uncollectibles	311,844	263,748	71,943	647,535
Total current assets	1,207,926	1,000,964	193,534	2,402,424
Noncurrent assets				
Investments	6,146,433	5,056,736	834,023	12,037,192
Prepaid expense	-	49,458	-	49,458
Capital assets:				
Land	176,587	273,973	-	450,560
Buildings and improvements	4,797,052	10,571,770	-	15,368,822
Machinery and equipment	722,015	284,263	1,071,071	2,077,349
Construction in progress	47,683	229,860	-	277,543
Less accumulated depreciation	(3,453,245)	(2,606,082)	(720,617)	(6,779,944)
Total capital assets, net	2,290,092	8,753,784	350,454	11,394,330
Total noncurrent assets	8,436,525	13,859,978	1,184,477	23,480,980
Total assets	9,644,451	14,860,942	1,378,011	25,883,404
LIABILITIES				
Current liabilities				
Accounts payable	13,246	-	-	13,246
Customer deposits	52,343	-	650	52,993
Accrued interest payable	-	89,167	-	89,167
Due to other funds	-	-	50,000	50,000
Compensated absences	7,563	16,443	6,493	30,499
Notes payable	-	363,726	-	363,726
Total current liabilities	73,152	469,336	57,143	599,631
Noncurrent liabilities				
Notes payable	-	4,977,189	-	4,977,189
Total noncurrent liabilities	-	4,977,189	-	4,977,189
Total liabilities	73,152	5,446,525	57,143	5,576,820
NET ASSETS				
Invested in capital assets, net of related debt	2,290,092	3,412,869	350,454	6,053,415
Restricted for				
Debt service	-	539,443	-	539,443
Capital projects	115,692	344,263	47,526	507,481
Unrestricted	7,165,515	5,117,842	922,888	13,206,245
Total net assets	\$ 9,571,299	\$ 9,414,417	\$ 1,320,868	\$ 20,306,584



TOWN OF FLORENCE, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-type Activities-Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating revenues				
Development fees	\$ -	\$ 27,369	\$ 16,058	\$ 43,427
Water sales	2,803,714	-	-	2,803,714
Water connection fees	5,594	-	-	5,594
Service establishment fees	12,987	-	-	12,987
Sewer service fees	-	2,480,081	-	2,480,081
Sewer connection fees	-	6,234	-	6,234
DOC usage fees	-	731,936	-	731,936
Water standpipe	3,454	-	-	3,454
Hydro-sprinkler fees	450	-	-	450
Central Arizona Project	120,832	-	-	120,832
Refuse collection fees	-	-	978,171	978,171
Effluent charges	14,121	-	-	14,121
Miscellaneous	147,826	52,375	24,368	224,569
Total operating revenue	<u>3,108,978</u>	<u>3,297,995</u>	<u>1,018,597</u>	<u>7,425,570</u>
Operating expenses				
Personal services	280,654	360,835	262,334	903,823
Supplies	62,194	116,064	84,864	263,122
Contractual services and maintenance	827,095	846,620	224,809	1,898,524
Depreciation	151,984	304,635	89,957	546,576
Total operating expenses	<u>1,321,927</u>	<u>1,628,154</u>	<u>661,964</u>	<u>3,612,045</u>
Operating income (loss)	<u>1,787,051</u>	<u>1,669,841</u>	<u>356,633</u>	<u>3,813,525</u>
Nonoperating revenues (expense)				
Interest income	34,022	25,726	4,619	64,367
Interest expense	-	(178,382)	-	(178,382)
Total nonoperating revenues (expense)	<u>34,022</u>	<u>(152,656)</u>	<u>4,619</u>	<u>(114,015)</u>
Income before transfers	1,821,073	1,517,185	361,252	3,699,510
Transfers in	27,438	13,684	-	41,122
Transfers out	(308,590)	(310,230)	(103,892)	(722,712)
Change in net assets	1,539,921	1,220,639	257,360	3,017,920
Total net assets-beginning of year	8,031,378	8,193,778	1,063,508	17,288,664
Total net assets-end of year	<u>\$9,571,299</u>	<u>\$ 9,414,417</u>	<u>\$1,320,868</u>	<u>\$ 20,306,584</u>

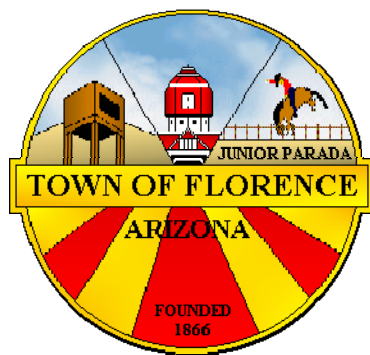
TOWN OF FLORENCE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-type Activities-Enterprise Funds			
	Water	Sewer	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 3,007,747	\$ 3,188,215	\$ 1,024,096	\$ 7,220,058
Payments to suppliers	(876,043)	(1,105,142)	(359,673)	(2,340,858)
Payments to employees	(284,280)	(362,692)	(258,827)	(905,799)
Net cash provided by operating activities	1,847,424	1,720,381	405,596	3,973,401
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(308,590)	(310,230)	(103,892)	(722,712)
Transfers from other funds	27,438	13,684	-	41,122
Net cash used by noncapital financing activities	(281,152)	(296,546)	(103,892)	(681,590)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(104,195)	(132,151)	-	(236,346)
Principal paid on capital debt	-	(351,974)	-	(351,974)
Interest paid on capital debt	-	(184,307)	-	(184,307)
Net cash used by capital and related financing activities	(104,195)	(668,432)	-	(772,627)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(3,302,626)	(2,486,518)	(501,113)	(6,290,257)
Interest received	34,022	25,726	4,619	64,367
Net cash provided by investing activities	(3,268,604)	(2,460,792)	(496,494)	(6,225,890)
Net decrease in cash and cash equivalents	(1,806,527)	(1,705,389)	(194,790)	(3,706,706)
Cash and cash equivalents at beginning of year	2,702,609	2,442,605	316,381	5,461,595
Cash and cash equivalents at end of year	\$ 896,082	\$ 737,216	\$ 121,591	\$ 1,754,889

See accompanying notes.

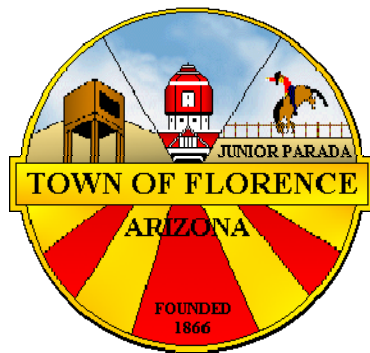
TOWN OF FLORENCE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2011

	Business-type Activities-Enterprise Funds			
	Water	Sewer	Sanitation	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,787,051	\$ 1,669,841	\$ 356,633	\$ 3,813,525
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	151,984	304,635	89,957	546,576
(Increase) decrease in:				
accounts receivable	(102,777)	(109,780)	4,849	(207,708)
prepaids	-	(49,458)	-	(49,458)
Increase (decrease) in:				
accounts payable	13,246	(93,000)	-	(79,754)
customer deposits	1,546	-	650	2,196
due to others	-	-	(50,000)	(50,000)
compensated absences	(3,626)	(1,857)	3,507	(1,976)
Total adjustments	60,373	50,540	48,963	159,876
Net cash provided by operating activities:	<u>\$ 1,847,424</u>	<u>\$ 1,720,381</u>	<u>\$ 405,596</u>	<u>\$ 3,973,401</u>



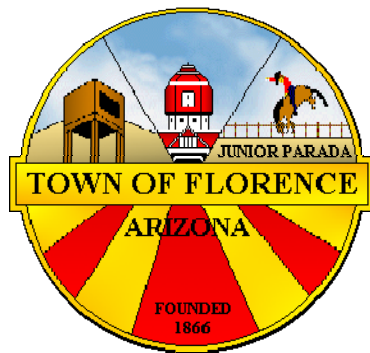
TOWN OF FLORENCE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	\$ 890
Investments	<u>287,906</u>
Total assets	<u>288,796</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u><u>\$ 288,796</u></u>



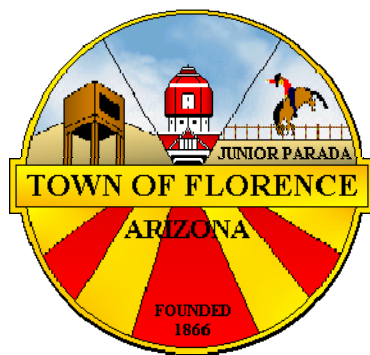
TOWN OF FLORENCE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2011

	<u>Pension Trust</u>
ADDITIONS	
Contributions	
Employee	\$ 4,773
Investment earnings	
Interest	33,476
Total additions	<u>38,249</u>
DEDUCTIONS	
Pension withdrawals	<u>14,346</u>
Change in net assets	23,903
Net assets-beginning of year	264,893
Net assets-end of year	<u><u>\$ 288,796</u></u>



FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS



TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Florence, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Town is a municipal entity governed by an elected Mayor and council. The basic financial statements of the town include the funds of all organizational entities for which the Town Council has oversight responsibility or financial accountability and are consequently determined to be included in the Town's financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, the Financial Reporting Entity. The Town provides basic government services to its citizens including roads, water, sewer, sanitation, parks and recreation facilities, police and fire.

Individual Component Units – Blended

The Merrill Ranch Community Facilities District #1 and Merrill Ranch Community Facilities District #2 were formed by petition to the Town Council on December 19, 2005 and November 21, 2005, respectively. The purpose of the Districts is to acquire or construct public infrastructure in specified areas of the Town. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts may levy taxes and issue bonds independently of the Town. Property owned in the designated areas is assessed for the Districts' property taxes, and thus for the costs of operating the Districts. The Town Council serves as the Board of Directors of the Districts. The Town has no liability for the District's debt. For reporting purposes, the transactions of the Districts are included as governmental type funds as if they were part of the Town's operations.

No separate financial statements were prepared for the Districts.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) present financial information about the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, state-shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Fund Balances – Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of Town Council. Town Council is the highest level of decision-making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by Town Council.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Town's adopted policy, only Town Council or the Town's Finance Director may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Balances – Governmental Funds (Continued)

As of June 30, 2011, fund balances are composed of the following:

	General	Highway User	Community Facilities Districts - Debt Service
Nonspendable:			
Prepaid items	\$ 500	\$ -	\$ -
Insurance deposits	63,968	-	-
Restricted:			
Merrill Ranch Community Facility District # 1 debt service	-	-	2,164,088
Merrill Ranch Community Facility District # 2 debt service	-	-	1,692,363
Streets operations, maintenance and infrastructure improvements	-	5,061,255	-
Assigned:			
Other purposes	-	557,847	-
Unassigned	12,094,167	-	-
Total fund balances	<u>\$ 12,158,635</u>	<u>\$ 5,619,102</u>	<u>\$ 3,856,451</u>
	Community Facilities Districts - Capital Improvements	Impact Fees	Capital Improvements
Restricted:			
Merrill Ranch Community Facility District # 1 capital projects	\$ 567,503	\$ -	\$ -
Merrill Ranch Community Facility District # 2 capital projects	148,830	-	-
General government capital projects	-	1,401,711	-
Public safety capital projects	-	3,165,216	-
Parks and recreational capital projects	-	977,589	-
Library capital projects	-	772,057	-
Transportation paving and extensions	-	430,587	-
Assigned:			
Other capital projects	-	-	6,316,896
Total fund balances	<u>\$ 716,333</u>	<u>\$ 6,747,160</u>	<u>\$ 6,316,896</u>

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Balances – Governmental Funds (Continued)

	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:		
Inventories	\$ -	\$ 500
Prepaid items	-	63,968
Restricted:		
Merrill Ranch Community Facility District # 1 administrative purposes	193,006	193,006
Merrill Ranch Community Facility District # 1 capital projects	-	567,503
Merrill Ranch Community Facility District # 1 debt service	-	2,164,088
Merrill Ranch Community Facility District # 2 administrative purposes	96,324	96,324
Merrill Ranch Community Facility District # 2 capital projects	-	148,830
Merrill Ranch Community Facility District # 2 debt service	-	1,692,363
North Florence Improvement District debt service	136,369	136,369
State legislative directed operational purposes	37,826	37,826
General government capital projects	3,308,603	4,710,314
Public safety capital projects	65,000	3,230,216
Streets operations, maintenance and infrastructure improvements	-	5,061,255
Parks and recreational capital projects	1,148,569	2,126,158
Library capital projects	-	772,057
Transportation paving and extensions	-	430,587
Other capital projects	55,209	55,209
Senior transportation	8,149	8,149
Other purposes	79,381	79,381
Committed:		
Streetlight improvement operations and maintenance	652,292	652,292
Assigned:		
Economic development	632,964	632,964
General government access improvement projects	30,157	30,157
Other capital projects	-	6,316,896
Other purposes	-	557,847
Unassigned	-	12,094,167
Total fund balances	\$ 6,443,849	\$ 41,858,426

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Balances – Governmental Funds (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Town Council or the Town's Finance Director has provided otherwise in its commitment or assignment actions.

The General Fund has Unassigned Funds consisting of a Stabilization Arrangement in the amount of \$1,403,812. The Stabilization Arrangement was legislated by the Town Council to set aside resources to cover unanticipated deficits or revenue reductions that may be caused by adverse economic conditions or public emergency. The amount of the Stabilization Arrangement is equal to \$500,000 plus 10% of the operating revenues.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for service, special assessments and investment income associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues also arise when the Town receives resources before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The Town reports the following major governmental funds:

General Fund - This fund is the general operating fund of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in other funds.

Highway User Fund – Special Revenue Fund - This fund is used to account for the Town's share of tax revenues that are legally restricted to the maintenance of highways within the Town's boundaries.

Community Facilities Districts - Debt Service Fund - This fund accounts for the debt portion of the Town's Community Facilities Districts which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

Community Facilities Districts - Capital Improvements Fund - This fund accounts for all the acquisition and construction portion of the Town's Community Facilities Districts which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

Impact Fees Fund – Capital Improvements Fund - This fund collects fees to help defray the costs of development of infrastructure.

Capital Improvements Fund - This fund accounts for all the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The Town reports the following major proprietary funds:

Water Fund - This fund is used to account for the Town's water related operations.

Sewer Fund - This fund is used to account for the Town's sewer related operations.

Sanitation Fund - This fund is used to account for the activities of the Town's sanitation operations.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reports the following fiduciary fund:

Pension Trust Fund - This Pension Trust Fund is used to account for the Town's Volunteer Firefighter's Pension Fund, a defined contribution plan for which the assets are held by the Town in a trustee account. The Town, as well as, the Town's firefighters make contributions to the fund.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Town follows GASB guidance as applicable to its proprietary funds, and Financial Accounting Standards Boards Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB Pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for water, wastewater, and sanitation services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources, as they are needed.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Town's non-major funds are as follows:

Special Revenue Funds

Grants

Economic Development

Community Services

Community Facilities District

Debt Service Funds

Debt Service Fund

Capital Projects Funds

Food Tax

Construction Tax

Fiduciary funds are reported by fund type.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the Town upon demand. Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

F. Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principle and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The State's investment pool is managed by the State Treasurer's office with no regulatory oversight. The pool is not required to register with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with A.R.S. §35-311. The Arizona State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Arizona State Treasurer, 1700 West Washington, Phoenix, Arizona 85007. The fair value of a participant's position in the pool approximates the value of that participant's pool share.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of the interfund loans).

All trade and property tax receivables are shown net of allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivables allowance for uncollectibles.

Property taxes are levied by the Town and collected by the Pinal County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquent date. Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Prepaid Items

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

I. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, vehicles, machinery, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Certain capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvement other than buildings	20-70
Vehicles, machinery and equipment	3-10

J. Compensated Absences

The Town's employee vacation and sick leave policies provide for granting vacation and sick leave with pay. Sick leave and vacation benefits accrue at the employee's current rate of pay. The current and long-term liabilities for accumulated vacation are reported on the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignation and retirements. Resources from the General Fund are generally used to liquidate the governmental funds liabilities for compensated absences.

K. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

At June 30, 2011, the Town had \$1,550 of cash on hand. The carrying amount of the Town's cash in bank totaled \$1,602,271 and the bank balance was \$1,731,469. All of the Town's deposits at June 30, 2011 were covered by Federal Depository Insurance.

Investments

The Town invests in the Local Government Investment Pool 5 (LGIP), an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The State Board of Investment and the Investment Risk Management Committee have oversight responsibilities of the investment pool in accordance with ARS 35-311. The pool's policy is to invest in fixed-rate securities with a final maturity less than 36 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. The dollar weighted average portfolio maturity is less than 120 days. The net asset value per share of the pool at June 30, 2011 was \$1.00.

At June 30, 2011, the Town held a repurchasing agreement with National Bank that had a carry amount of \$3,280,483.

The Town's Community Facilities Districts have \$3,361,137 invested with Wells Fargo Brokerage Services. The accounts are invested in a money market fund that invests in U.S. government obligations and repurchase agreements.

Funds held in the State Treasurer's Local Government Investment Pool represent a proportionate interest in the pool's portfolio; however, the Town's portion is not identified with specific investments and is not subject to custodial credit risk. At June 30, 2011, the Town's funds invested with the State Treasurer totaled \$494,100.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The Town also holds \$46,854,804 invested with Stone & Youngberg. The accounts are invested in a money market fund, U.S. Treasury securities, and U.S. Government bonds.

Other investments that the Town owns belong to the Town's Volunteer Fire Department. Funds totaling \$288,796 are held by Securian Retirement Services and consist of a money market fund and a variable annuity.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of Town's investments by maturity:

Investment Type	Total	Remaining Maturity (In Months)			Not Applicable
		12 Months or Less	13 to 24 Months	25 to 60 Months	
Primary Government					
Repurchase Agreement	\$ 3,280,483	\$ 3,280,483	\$ -	\$ -	\$ -
Money Market Funds	3,361,137	3,361,137	-	-	-
LGIP	494,100	494,100	-	-	-
U.S. Government Bonds	46,854,804	-	-	46,854,804	-
	<u>53,990,524</u>	<u>7,135,720</u>	<u>-</u>	<u>46,854,804</u>	<u>-</u>
Fiduciary Fund					
Money Market Funds	890	890	-	-	-
Variable Annuity	255,101	-	-	255,101	-
Equities	32,805	-	-	-	32,805
	<u>288,796</u>	<u>890</u>	<u>-</u>	<u>255,101</u>	<u>32,805</u>
Total	<u>\$ 54,279,320</u>	<u>\$ 7,136,610</u>	<u>\$ -</u>	<u>\$ 47,109,905</u>	<u>\$ 32,805</u>

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type.

Investment Type	Total	Ratings as of Year-End			
		AAA	AA-	A+	Unrated
Primary Government					
Repurchase Agreement	\$ 3,280,483	\$ -	\$ -	\$ -	\$ 3,280,483
Money Market Funds	3,361,137	2,936,273	-	-	424,864
LGIP	494,100	494,100	-	-	-
U.S. Government Bonds	46,854,804	46,854,804	-	-	-
	<u>53,990,524</u>	<u>50,285,177</u>	<u>-</u>	<u>-</u>	<u>3,705,347</u>
Fiduciary Fund					
Money Market Funds	890	-	-	-	890
Variable Annuity	255,101	-	255,101	-	-
Equities	32,805	-	-	-	32,805
	<u>288,796</u>	<u>-</u>	<u>255,101</u>	<u>-</u>	<u>33,695</u>
Total	<u>\$ 54,279,320</u>	<u>\$ 50,285,177</u>	<u>\$ 255,101</u>	<u>\$ -</u>	<u>\$ 3,739,042</u>

U.S. Government Bonds were downgraded from AAA to AA subsequent to year end.

NOTE 3 RECEIVABLES

Receivables, net of allowance for uncollectible as of year-end for the Town's individual major governmental funds, nonmajor governmental funds in the aggregate are as follows:

	General Fund	Highway User Fund	Community Facilities Districts-Debt Service	Non-Major Governmental Funds	Total Governmental Funds
Receivables:					
Taxes	\$ 729,800	\$ 248,352	\$ -	\$ -	\$ 978,152
Accounts	322,233	-	-	14,555	336,788
Assessments	-	-	5,344,030	398,764	5,742,794
	<u>1,052,033</u>	<u>248,352</u>	<u>5,344,030</u>	<u>413,319</u>	<u>7,057,734</u>
Less:					
Allowance	-	-	-	-	-
Net receivables	<u>\$ 1,052,033</u>	<u>\$ 248,352</u>	<u>\$ 5,344,030</u>	<u>\$ 413,319</u>	<u>\$ 7,057,734</u>

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 RECEIVABLES (Continued)

The following table summarizes the Town's receivables for the enterprise funds as of June 30, 2011.

	Water Fund	Sewer Fund	Sanitation Fund	Total
Receivables:				
Accounts	\$ 317,344	\$ 267,048	\$ 78,743	\$ 663,135
	<u>317,344</u>	<u>267,048</u>	<u>78,743</u>	<u>663,135</u>
Less:				
Allowance	(5,500)	(3,300)	(6,800)	(15,600)
Net receivables	<u>\$ 311,844</u>	<u>\$ 263,748</u>	<u>\$ 71,943</u>	<u>\$ 647,535</u>

Revenues of the enterprise funds are reported net of uncollectible amounts. There were no uncollectible amounts related to revenues of the current period.

NOTE 4 CAPITAL ASSETS

A summary of capital assets activity for the fiscal year ended June 30, 2011 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 32,713,382	\$ 6,767	\$ (22,494)	\$ 32,697,655
Construction in progress	<u>1,488,536</u>	<u>165,291</u>	<u>(1,412,331)</u>	<u>241,496</u>
Total capital assets not being depreciated	<u>34,201,918</u>	<u>172,058</u>	<u>(1,434,825)</u>	<u>32,939,151</u>
Capital assets, being depreciated:				
Buildings, infrastructure and improvements	46,246,495	2,638,462	(431,484)	48,453,473
Vehicles, furniture and equipment	<u>7,075,340</u>	<u>235,240</u>	<u>(31,582)</u>	<u>7,278,998</u>
Total capital assets being depreciated	<u>53,321,835</u>	<u>2,873,702</u>	<u>(463,066)</u>	<u>55,732,471</u>
Less accumulated depreciation for:				
Buildings and improvements	(12,812,898)	(1,491,129)	431,484	(13,872,543)
Vehicles, furniture and equipment	<u>(4,975,166)</u>	<u>(549,263)</u>	<u>31,582</u>	<u>(5,492,847)</u>
Total accumulated depreciation	<u>(17,788,064)</u>	<u>(2,040,392)</u>	<u>463,066</u>	<u>(19,365,390)</u>
Total capital assets, being depreciated, net	<u>35,533,771</u>	<u>833,310</u>	<u>-</u>	<u>36,367,081</u>
Governmental activities capital assets, net	<u>\$ 69,735,689</u>	<u>\$ 1,005,368</u>	<u>\$ (1,434,825)</u>	<u>\$ 69,306,232</u>

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 CAPITAL ASSETS (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 394,073	\$ -	\$ -	\$ 394,073
Construction in progress	179,528	205,585	(51,083)	334,030
Total capital assets not being depreciated	573,601	205,585	(51,083)	728,103
Capital assets, being depreciated:				
Buildings, infrastructure and improvements	15,328,069	40,753	-	15,368,822
Vehicles, machinery and equipment	2,036,260	41,089	-	2,077,349
Total capital assets being depreciated	17,364,329	81,842	-	17,446,171
Less accumulated depreciation for:				
Buildings, infrastructure and improvements	(4,839,901)	(399,444)	-	(5,239,345)
Vehicles, machinery and equipment	(1,393,469)	(147,132)	-	(1,540,601)
Total accumulated depreciation	(6,233,370)	(546,576)	-	(6,779,946)
Total capital assets, being depreciated, net	11,130,959	(464,734)	-	10,666,225
Business-Type activities capital assets, net	<u>\$ 11,704,560</u>	<u>\$ (259,149)</u>	<u>\$ (51,083)</u>	<u>\$ 11,394,328</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 200,984
Public safety	351,635
Highway and streets	1,368,740
Culture and recreation	77,318
Community development	41,715
Total depreciation expense	<u>\$ 2,040,392</u>
Business-type activities	
Water	\$ 151,984
Sewer	304,635
Sanitation	89,957
Total depreciation expense	<u>\$ 546,576</u>

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 NOTES PAYABLE

The Town has a note payable to a private party for the purchase of land. The note is payable in annual installments of \$69,748 including interest at 6%. The note is secured by a deed of trust, assignments of rents, security agreement and fixture filings. The balance was \$546,788 at June 30, 2011.

The Town signed a promissory note from the Water Infrastructure Finance Authority (WIFA) to be used for construction of a new sewer plant in the amount of \$7,500,000. As of June 30, 2011, the Town has an outstanding balance of \$5,340,915. Payments are due semi-annually including interest at 3.339%.

The Town signed a promissory note from the Water Infrastructure Finance Authority (WIFA) to be used for construction of sewer plant improvements in the amount of \$1,300,000. As of June 30, 2011, the Town has not drawn down any funds from this note. Payments are due semi-annually including interest at 3.750%.

The annual debt service requirements to maturity as of June 30, 2011, are as follows:

Year Ending, June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 36,940	\$ 32,807	\$ 363,726	\$ 172,359
2013	39,157	30,591	375,871	160,011
2014	41,506	28,241	388,421	147,251
2015	43,997	25,751	401,390	134,065
2016	46,636	23,111	414,793	120,439
2017 - 2021	278,667	70,071	2,291,197	381,330
2022 - 2026	59,884	3,593	1,105,517	38,649
Total	<u>\$ 546,788</u>	<u>\$ 214,166</u>	<u>\$ 5,340,915</u>	<u>\$ 1,154,104</u>

NOTE 6 BONDS PAYABLE

Bonds payable at June 30, 2011, consisted of the outstanding special assessment bonds presented below.

The bonds issued in 1994 to acquire Arizona Sierra Utility have an outstanding principal of \$482,000. The bonds are secured and payable from special assessments levied against the real property benefited by said improvements. If the assessments are not paid, the properties subject to such assessments are sold at auction. If there is no purchaser for any property offered for sale, the Town will get ownership of the property subject to any tax liens and will be liable for the remaining debt. The Town Council is required to appropriate from the General Fund of the Town the amount of the total unpaid assessments or the amount of each semiannual assessment until the total debt is paid.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 BONDS PAYABLE (Continued)

Community Facilities Districts (CFDs), special purpose districts created specifically to acquire or construct public infrastructure within specified areas of the Town, are authorized under state law to issue General Obligation (GO) bonds to be repaid by property taxes levied on property within the districts. CFDs are created by petition of the Town Council by property owners within the area to be covered by the district and debt may be issued only after approval of the voters within the district.

In June 2006 the Merrill Ranch Community Facilities District #2 assessment area one issued \$2,464,000 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

In November 2006 the Merrill Ranch Community Facilities District #1 issued \$194,000 of Series 2006 GO bonds to finance capital improvements within the district. In August 2008 the Merrill Ranch Community Facilities District #1 issued \$4,390,000 of GO Series 2008A bonds to pay off the Series 2006 bonds of \$187,000 and used the remaining amount to finance a portion of the costs of acquiring certain public infrastructure within the boundaries of the District. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

In September 2009 the Merrill Ranch Community Facilities District #1 assessment area two issued \$353,500 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

In September 2009 the Merrill Ranch Community Facilities District #2 assessment areas two and three issued \$829,500 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district. The first principal payment is due in July 2011.

In February 2010 the Merrill Ranch Community Facilities District #2 assessment area four issued \$203,000 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district. The first principal payment is due in July 2011.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 BONDS PAYABLE (Continued)

In October 2010 the Merrill Ranch Community Facilities District #1 assessment area three issued \$290,500 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district. The first principal payment is due in July 2012.

In November 2010 the Merrill Ranch Community Facilities District #2 assessment issued \$3,560,000 of Series 2010 GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district. The first principal payment is due in July 2011.

A summary of long-term bond debt payable at June 30, 2011, follows:

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2011	Due Within One Year
Utility Improvement District #1 Revenue Bonds 1994	8.45%	1/1/2019	\$ 482,000	\$ 42,000
Merrill Ranch CFD #1 Special Assessment Bonds 2006	4.30 - 5.30%	7/1/2030	2,188,000	65,000
Merrill Ranch CFD #2 Special Assessment Bonds 2006	4.30 - 5.30%	7/1/2030	2,253,000	69,000
Merrill Ranch CFD #1 General Obligation Bonds 2008A	6.00 - 7.40%	7/15/2033	4,210,000	80,000
Merrill Ranch CFD #1 Special Assessment Bonds 2009	9.00%	7/1/2034	353,500	4,600
Merrill Ranch CFD #2 Special Assessment Bonds 2009	9.00%	7/1/2034	829,500	10,800
Merrill Ranch CFD #2 Special Assessment Bonds 2010	7.75%	7/1/2035	203,000	1,000
Merrill Ranch CFD #1 Special Assessment Bonds 2010	7.50%	7/1/2035	290,500	-
Merrill Ranch CFD #2 General Obligation Bonds 2010	5.86%	7/15/2035	3,560,000	425,000
Total			<u>\$ 14,369,500</u>	<u>\$ 697,400</u>

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Annual debt service requirements to maturity on governmental bonds payable at June 30, 2011 are summarized as follows:

Fiscal year ending June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 697,400	\$ 915,189
2013	380,580	866,561
2014	391,690	837,331
2015	411,980	824,565
2016	438,460	801,345
2017 - 2021	2,435,670	3,568,914
2022 - 2026	2,951,000	2,737,319
2027 - 2031	4,060,370	1,627,436
2032 - 2036	2,602,350	394,057
Total	<u>\$ 14,369,500</u>	<u>\$ 12,572,717</u>

Long-term liabilities activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 10,851,000	\$ 3,850,500	\$ 332,000	\$ 14,369,500	\$ 697,400
Notes payable	581,637	-	34,849	546,788	36,940
Compensated absences	297,641	299,754	252,209	345,186	345,186
Governmental activities long-term liabilities	<u>\$ 11,730,278</u>	<u>\$ 4,150,254</u>	<u>\$ 619,058</u>	<u>\$ 15,261,474</u>	<u>\$ 1,079,526</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Notes payable	\$ 5,692,889	\$ -	\$ 351,974	\$ 5,340,915	\$ 363,726
Compensated absences	32,475	28,410	30,386	30,499	30,499
Business-type activities long-term liabilities	<u>\$ 5,725,364</u>	<u>\$ 28,410</u>	<u>\$ 382,360</u>	<u>\$ 5,371,414</u>	<u>\$ 394,225</u>

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2011, there were the following interfund balances.
Interfund receivable/payable:

Fund	Receivable Amount	Payable Amount
Capital Improvements	\$ 50,000	\$ -
Sanitation	-	50,000
Total	<u>\$ 50,000</u>	<u>\$ 50,000</u>

Fund	Transfers Out	Transfers In
General Fund	\$ 8,894	\$ 1,088,741
Highway User	316,080	43,540
CFD Debt Service	-	26,455
CFD Capital Improvements	26,455	-
Capital Improvements	11,638	50,000
Non-Major Governmental Funds	178,794	14,715
Water	308,590	27,438
Sewer	310,230	13,684
Sanitation	103,892	-
Total	<u>\$ 1,264,573</u>	<u>\$ 1,264,573</u>

All transfers made during the year were routine in nature and consistent with the activities of the fund making the transfer.

NOTE 9 RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its members additional premiums should reserve and annual premiums be insufficient to meet the pool's obligations.

The Town is insured by the Workers' Compensation Insurance Fund for potential worker-related accidents.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 10 CONTINGENT LIABILITIES

Federal and State grants and loans – The Town has received a number of grants and loans from both the Federal and State governments. Although the programs have been audited, not all audits have been approved as of June 30, 2011; however, the Town expects no material disallowances of expenditures.

NOTE 11 RETIREMENT PLANS

All full-time Town employees are covered by one of two contributory retirement and pension plans, which are administered by the State of Arizona under State Statute.

Arizona State Retirement Plan

Plan Description - The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefits pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling 602-240-2200 or 1-800-621-3778.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the years ended June 30, 2011, 2010 and 2009 active ASRS members and the Town were each required by statute to contribute at the actuarially determined rates of 9.85, 9.40 and 9.45 percent (rate includes 0.25, 0.40 and 0.50 for long-term disability) respectively of the member's annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2011, 2010, and 2009 were \$421,120, \$416,033, and \$405,436, respectively, which were equal to the required contributions for the year.

Arizona Public Safety Personnel Retirement System

Plan Description - The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 167 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Town contributes to one PSPRS plan for police and one for firefighters. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. PSPRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at PSPRS, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling 602-255-5575.

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 RETIREMENT PLANS (Continued)

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 11.50% and 8.45% for covered payroll totaling \$169,635 and \$93,912 to the Plan for the Police and Firefighters, respectively.

Annual Pension Cost - The Town's pension cost for the agent plan for the year ended June 30, 2011, and related information follows:

	<u>PSPRS – Police</u> June 30, 2009	<u>PSPRS – Fire</u> June 30, 2009
Actuarial valuation date	Projected Unit Cost	Projected Unit Cost
Actuarial cost method		
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	5.5 – 8.5%	5.5 – 8.5%
Includes inflation at cost-of-living adjustment	5%	5%
Amortization method	Level Percent Open	Level Percent Open
Remaining amortization period	Open 20 Years	Open 20 Years
Asset valuation method	Smoothed Market	Smoothed Market
Post retirement benefit increases	Based on Income	Based on Income

Trend Information - Information for the PSPRS plan as of the most recent actuarial valuations follows:

Plan	Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS - Police	2011	\$ 178,481	100.0%	-
	2010	95,452	100.0%	-
	2009	60,525	100.0%	-
PSPRS - Fire	2011	\$ 117,599	100.0%	-
	2010	80,684	100.0%	-
	2009	37,170	100.0%	-

TOWN OF FLORENCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 RETIREMENT PLANS (Continued)

Funding Policy (Continued)

Funding Progress - An analysis of funding progress for each of the agent plan as most recent actuarial valuations, June 30, 2011 follows:

PSPR - Florence Police Plan:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2011	\$ 3,152,563	\$ 2,956,428	\$ 196,135	106.6%	\$ 1,673,904	0%
2010	2,535,613	2,330,451	205,162	108.8%	1,635,384	0%
2009	2,203,084	2,261,965	(58,881)	97.4%	1,219,892	0%

PSPR - Florence Fire Plan:

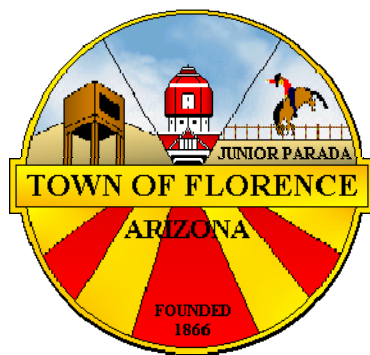
	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2011	\$ 1,070,878	\$ 810,901	\$ 259,977	132.1%	\$ 1,099,057	0%
2010	863,388	743,279	120,109	116.2%	1,143,644	0%
2009	705,178	547,507	157,671	128.8%	618,405	0%

NOTE 12 COMMITMENTS

The Town entered into several contracts for construction. The following is a schedule of the balances at June 30, 2011 for work not yet completed.

Contractor	Project	June 30, 2011
Knochel Bros., Inc.	Florence Gardens Phase 3	\$ 17,824
Knochel Bros., Inc.	T42-Attaway Road	131,355
Baxter Design Group	Florence Fire Station #548	36,353
	Total Commitment Amount	<u>\$ 185,532</u>

COMPLIANCE REPORT





REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

The Honorable Mayor and Council
Town of Florence, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Florence (the "Town"), as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

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Fax (480) 839-1749

Scottsdale
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Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses, and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting: 2011-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Florence's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Town of Florence's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Henry & Horne LLP

Casa Grande, Arizona
September 29, 2011

TOWN OF FLORENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

FINDING: 2011-1

Internal controls related to the year end closing procedures for management review failed to detect a misstatement of utility receivables and depreciable asset net book values.

CRITERIA

Proper controls surrounding management's review of year end closing procedures are necessary to ensure accurate year end balances.

CONDITION/CONTEXT

Management's year end review of closing entries and depreciable asset balances failed to detect a misstatement of receivables not properly accrued and negative net book values at year end, respectively.

EFFECT

An understatement of receivables and utility revenues occurred with the accrued receivables misstatement, and an understatement of assets and overstatement of expenses occurred with the depreciable assets negative net book value misstatement.

CAUSE

Management failed to detect misstatements at year end due to inadequate review of procedures in utility receivables and depreciable capital assets.

RECOMMENDATION

We recommend management perform a more rigorous review of year end closing procedures before finalizing the trial balance.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Town Management agrees with the finding. The Town will ensure that a post year closing review, by management, of all accounts receivable posting in the new year is made to capture any prior year revenue accruals. This will be accomplished through a written procedure. The Town will also ensure that the asset reports are thoroughly reviewed by management to ensure that they are correct through a written procedure.